



# STATE OF THE STATE ADDRESS

## GOVERNOR JANET NAPOLITANO

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PRESENTED TO THE 48<sup>TH</sup> ARIZONA LEGISLATURE  
SECOND REGULAR SESSION  
JANUARY 14, 2008



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President Bee, Speaker Weiers, Honorable Senators and Representatives, Chief Justice McGregor and members of the Supreme Court, tribal leaders, honored guests and my fellow Arizonans:

My message to you today is clear: the state of Arizona is strong. And together, we are writing the story of its future.

To do that, we must build on the already-written chapters of Arizona's past, the story of the men and women who came before us – the Hohokam and Anasazi, the pioneers, the Buffalo soldiers, the many who moved here from other states and other countries.

And we will continue to build on the work we began five years ago.

During that time, we have been dedicated and consistent, focusing the story on issues that matter most to the people of Arizona: our children – educating them and preparing them for their futures; building safe and strong communities; and reaffirming our heritage as a state where hard work and good ideas lead to prosperity. We've made progress on every score, and in doing so, we've restored Arizonans' confidence that ours is a state that's going places.

Today, our duty is to keep this momentum going, even as we confront the challenges of our current budget. Arizona is young and vital. Our extraordinary growth propels us toward a new, dynamic time of transition, where bold ideas can take root, and where we can fully embrace what it means to build our future. With our heads up and with full steam ahead, let's get to work, and keep this powerful narrative moving.

I see it as a story with five interlocking chapters. Chapter One, for me, will always be education.

I believe education is the most important chapter for our future. Look where we stood just five years ago. There was no plan to give Arizona's children the early start they need and deserve. Teacher pay was lagging, and we weren't doing what was necessary to support our new teachers and keep our best educators in the classroom. Phoenix was the largest city in the nation without a university-based medical school and our state was not graduating enough students with college degrees to keep up with our growth.

Fast-forward to today. We've created a new grade level by making full-day kindergarten available to every Arizona family. We've made historic investments in early childhood education and in teacher pay. We've broken ground on an all-new medical campus, tripled our contribution to student financial aid, and built up our universities.



This is progress, and it is precisely where we needed to go.

Now, we must move quickly – this year – to implement the voter-approved initiative aimed at early childhood. Beginning with our youngest children, we must focus on preschool and quality child care, so that children are fully prepared for the all-day kindergarten we now provide.

For older students, we set the tone last month when the State Board of Education raised expectations and standards to require more math and science in high school. I believe – and our educators believe – these new standards are key to what must be the central goal of an Arizona education: giving our students the skills they need to succeed in the high-tech, high-knowledge world of the 21<sup>st</sup> century.

And now that we've changed the graduation standards, tests need to be changed to match. For example, students now will have had four years of math, taking them to the Algebra II level. It makes no sense to test them to a level they completed two years earlier.

So we need to look at everything – including AIMS – to make sure we're testing for the right things, at the right times, and for the right reasons.

It's also time to end the fiction that a high school diploma is the final goal of education or that a student should be allowed to drop out at the age of 16. An Arizona diploma should demonstrate that a student is fully prepared for higher education, whether in a technical or vocational setting, a community college, or a university. Yes, we should make reasonable alternatives available for students who can't succeed in a regular classroom. And the dropout age should be raised to 18 years old.

Higher standards for students mean we must sustain a higher-quality corps of math and science teachers by expanding teacher loan forgiveness, scholarships, and incentives. Last year, you took a big step in this direction by providing initial funding for these incentives, and by funding more math and science teachers; I ask you to do the same this year.

We've added rigor to the curriculum and raised expectations. But high standards must come with strong support, which you should provide; and we must also reward our students when they succeed.

Given our budget constraints, we cannot do as much – immediately – as we would like. But we can look to the future. The eighth graders of today are the high school class of 2012 – Arizona's centennial class. I say, let's make a contract with these *Centennial Scholars*, and with all the classes that follow. Let's agree that any eighth grader who pledges to stay out of trouble and maintains at least a "B" average in high school will be guaranteed free tuition at any of our community colleges or state universities. Let's act now for the class of 2012, and for every class thereafter, because the promise of these *Centennial Scholars* is the promise of Arizona's next 100 years.



Rewarding students who are excelling is a good step, but we must recognize that higher education is something that all Arizona children will need to succeed. It's a pathway to prosperity and, in Arizona, it's also supposed to be affordable. I propose that, beginning next year, all Arizona universities guarantee that when a student begins college, his or her tuition will not be raised for four years – period. Times change and tuition will rise, but it shouldn't go up once you've started your coursework. Call it a “fixed-rate” loan on the best investment we can make in Arizona's future – our children.

We also need to educate and train more health care professionals. To achieve that end, the new university medical campus in Phoenix, which will bring more doctors, nurses, pharmacists and other health care professionals to Arizona, is paramount. My budget asks you to authorize the funding necessary for this project, which will make Arizona a world leader in cutting-edge medical education and health care.

While we invest in these medical degrees, let's remember that Arizona has to increase the number of students who earn bachelor's degrees.

In the past five years, that number has grown, and our community colleges are granting associate degrees at a very competitive rate. But we need to do more. I call on our higher education institutions to work together and double the number of bachelor's degrees they produce by the year 2020. To do this, our universities have to increase graduation rates, retain more students, create more options for students in rural areas, enroll more first-generation students, and boost the number of students coming from community colleges. This Legislature needs to support them now in these critical tasks.

Before I leave this chapter on education, I will remind you of a critically important fact: 15 percent of students come from families that do not speak English. These students must learn to read, write and speak in English as soon as possible. I put this challenge to legislative leadership: take our tax dollars out of court and put them back in the classroom, where they belong.

Our education system is linked to the needs of Arizona's economic future. There is no separation. We need more teachers. We need more engineers, scientists, urban planners, water specialists and entrepreneurs. We have worked ardently, from preschool to community college and university, to increase the quality of an Arizona education, and then to align education as a whole to the needs of Arizona's economy. We are still writing the education chapter of our Arizona story, but the direction we have taken is the right one.

This takes me to Chapter Two: **economic prosperity** and a diverse, knowledge-based economy. While entrepreneurs have long found success in Arizona, five years ago, our economic development strategy was haphazard and uncoordinated. Too few leaders were thinking beyond the housing economy.

We were making scant efforts to foster businesses in areas where Arizona can lead the world – like solar power, optics, or personalized medicine.



In the past five years, we've added more than a half million new jobs. We've become a top state in the country for attracting and retaining jobs and companies. We've made historic investments in rural economic development – including the important tourism industry – provided tax relief for innovative high-tech companies, increased Arizona's exports and foreign investment, and retooled the state Department of Commerce to do even more.

And in the last year, we've created an entirely new model for guiding economic development efforts in Arizona. The Arizona Economic Resources Organization – AERO – unites the public sector, the private sector, the education community, and the philanthropic community to target economic development efforts in Arizona. Success in the future economy will depend on innovation – so we are being innovative in our own approach.

International trade will be an important part of our economic future. While public debate has focused on illegal immigration, billions of dollars of lawful commerce cross Arizona's border each year. Right now, delays at the border tie up trade that is vital to Arizona's well being. I have already named former Congressman Jim Kolbe to head Arizona's effort to build strong commercial corridors through our state. Today, I have also asked him to update Arizona's ongoing strategy for improving our ports of entry, so that we can support a system that works for Arizona.

As we take our economic development efforts to the next level, we also have to continue to find ways to maximize our research dollars. We did this together by creating and funding Science Foundation Arizona, which has turned out to be a wise and remarkably effective decision. Science Foundation Arizona's mission is to meld government, industry and education into a new business model that emphasizes innovation and discovery.

Our investment has already paid us back in breakthroughs.

Science Foundation Arizona has funded significant research, ranging from the development of targeted, personalized cancer treatments, to the creation of a brand-new source of biofuel.

The Foundation's Competitive Advantage Awards program provides seed money for basic research throughout our state. Their grants to programs throughout Arizona last year brought in \$9 in federal funds for every \$1 invested. And the \$25 million you appropriated for this year has been matched by another \$25 million in private dollars. This is an outstanding return on investment, and it's an investment we need to continue.

Switching to personal investments for a moment, let's talk about Arizonans stuck in the subprime-lending debacle.

I have met with the major lenders in our state. We have agreed that buyers should have the chance to work out their loans with lenders and to stay in their homes; yet, they must still meet their obligations to the businesses that lent them money.

Now, it's our job to keep this mess from happening again. To do this, I've created a three-step plan.



First, the Department of Real Estate, at my direction, has created the *Homebuyers' Bill of Rights*. It is available now, on the Web and in print, and it gives homebuyers information about roads, water, police and fire services and more. It's a tool for making educated financial decisions, and it's step one.

For step two, you need to pass the Arizona Home Equity Theft Protection Act, to license "equity purchasers." There are some in this category who prey on vulnerable homeowners and use deceptive practices to cheat them out of their homes. Let's pass the bill and put the bad guys out of work.

The third step is to license loan officers. When an Arizonan sits down to talk about buying a home – usually the biggest investment they'll ever make – the person on the other side of the table should be experienced, educated and ethical. Once they're licensed, that license can be removed for behavior that violates the law or the ethical rules of the profession. Our state's lenders want high standards in their field, so let's work with them and get this done this year.

We will live through this housing-market downturn, and we will mitigate those that come in the future. It's all part of protecting Arizona; which brings me to Chapter Three in this story of Arizona's future: our security and public safety.

Five years ago, our state lacked adequate counter-terrorism resources. Arizonans didn't have a central place to go for information if a disaster struck. And while border crime was escalating, local communities didn't have the tools or manpower they needed, and the issue was not even on the federal agenda.

Today, we have a 24-hour terrorism intelligence center and a statewide 2-1-1 system to disseminate public safety information. In five years, we've increased DPS funding by more than 60 percent. We are entering the third year of a four-year plan to ensure that every person who needs shelter from domestic violence can get it. We've deployed the National Guard at the border at federal expense, cracked down on border gangs, drug smugglers and human traffickers, and we've become the leading state in the nation in confronting America's broken borders head-on.

When it comes to regaining control of immigration, the federal government has been a miserable failure. Arizonans know – better than anybody – that immigration problems aren't going away. And until there is comprehensive immigration reform by the federal government, we will have to deal with those problems.

It has been against the law in the United States for business to hire illegal labor since 1986. Congress left to the states the option of imposing licensing sanctions. Now, we've taken them up on it. Arizona's employer sanctions law has taken effect, and we will continue to implement it. But on the day I signed it, I wrote to you and pointed out flaws that still need your attention. You can make these changes and yet keep the law's meaning, purpose, and strength.



You should add to the law a definition of what constitutes a “complaint,” so that law enforcement does not have to waste resources chasing down anonymous calls from malicious competitors or disgruntled employees. You should clarify that a wrongful hiring decision at one location doesn’t shut down an entire chain of stores and put legal Arizonans out of work. The law has to ensure that vital infrastructure, like nursing homes and hospitals, can continue to operate. And you should specify that the law cannot be used to discriminate.

As I pointed out to you when I signed the employer sanctions bill, this Legislature did not set aside enough funding to enforce it effectively.

I have a solution that you can act on quickly: redirect some of the money that the state recovers from successful prosecutions. Each year, Arizona prosecutors receive millions of dollars from penalties paid when a criminal racket is stopped.

It’s a good concept; in fact, last year, some of that money funded an all-new, state-of-the-art crime lab for Southern Arizona.

But too often lately, we see this money go for TV commercials that amount to little more than publicity for an elected official. That’s the wrong way to use it. Pass a bill that uses the money for core functions of law enforcement – like body armor and investigators; then dedicate a part of that money to enforce the employer sanctions law. In a tight budget year, this is efficient, and ensures that the money is used responsibly and effectively.

You must also pass the legislation necessary to authorize a second, optional driver’s license. This is the “3-in-1” card that serves three purposes: it is a driver’s license; it is a passport for those U.S. citizens crossing from Mexico and Canada; and it is proof of citizenship – for purposes of the employer sanctions law.

Some were quick to criticize, but the facts are these: it is more secure than your current Arizona driver’s license; it is voluntary – no one will be required to have it; and it could be available at minimal cost to Arizonans by September of this year. Arizona employers have been asking for an alternative to the federal E-Verify system. This could be it.

We need to keep fierce pressure on the organized street gangs and criminal rackets that smuggle humans, narcotics, stolen vehicles, and weapons into our state. You can do this by continuing your support of DPS officers – especially in the highway patrol division, in the GIITEM gang task force, in crime labs and in forensics.

Next, let’s keep working to take away the tools of the smuggling trade. We went after fake ID’s, with the Fraudulent ID Task Force, and that’s working; we went after wire transfers of illegal profits, and that’s working; we went after stolen vehicles used to bring people into the country illegally, and – guess what? – that’s working, too.

The next step is to target the drop houses located in family neighborhoods all over Arizona. Right now, law enforcement can go after the property owners. But too often, it’s the middleman – the property manager – who rents out a house, knowing full well it will be used as a drop





house. Strengthen the law, so we can get to that middleman. No ID-s, no money, no cars, no drop houses - that's how we will ultimately put an end to this savage industry in Arizona.

Violence around the world reminds us all that outside threats to our nation and our communities continue. The Arizona Counter Terrorism Intelligence Center has so far trained and equipped hundreds of Arizona law enforcement officers to be prepared for a crisis. Yet federal funding for this critical center has been slashed. In order to continue the important work we have begun, my budget allocates \$1.4 million to operate this facility.

Finally, I want to bring the subject of security back to the home, and to children. Child Protective Services has come a long way, but we still have work to do.

It has become increasingly clear to me that to do more for our children, we need to do more about the substance abuse that grips their parents. Case managers will tell you that when a child is in danger, substance abuse is nearly always in the picture.

We have many prevention and treatment programs; the problem is, they're spread around various parts of state government. Today, by executive order, I have directed that substance abuse dollars be targeted so that the families of children in the child protective system are first in line for treatment and services. Let's make sure that these parents – who want to get clean for the sake of their children – have access to all the services that can help them do it.

In addition to this, it's obvious that CPS caseloads are still just too high. My budget asks you to fund additional case managers this year, so we continue to bring caseloads down to protect children.

Chapter Four in the story of Arizona's future is transportation and growth. Over the past five years, we've added 652 new lane miles of freeway, and secured hundreds of millions more dollars for transportation projects. We've implemented a forest health strategy, created our first-ever statewide drought and water conservation plan, and worked to prevent wildfires. We passed the most significant air-quality legislation in a decade. And just last month, we signed an historic agreement among the Basin States to manage Colorado River water.

Now, we're looking at even more explosive growth – a near doubling of our population in the next few decades. As I've said, Arizonans need relief from the "time tax." People need to get from work to home, to their places of worship, to the store, and to school to pick up their children, without constantly having to sit, breathing bad air, stuck in a traffic jam.

It is time to act.

We need a statewide plan to create functional new transportation corridors that serve growing communities. We also must actively include tribal governments, because all roads in Arizona – almost literally – go through Indian Country.

This plan must include not just necessary freeway construction, but also transit options – including a robust rail element – because we simply cannot out-freeway the problem. Imagine





expanded freeways, more local transit, plus a Tucson-to-Phoenix rail line, and you'll see how we need to write our transportation chapter.

The Arizona transportation plan of the future envisions a state of 10 to 12 million people and a transportation infrastructure second-to-none. It will not be cheap, but we are already lagging, and to continue to wait – to play catch-up – as opposed to planning ahead will only make the whole thing cost more. By this spring, the critical studies will be near enough to completion for you to act.

I ask that you schedule hearings, and prepare to refer to the ballot – either in 2008 or 2009 – an Arizona transportation plan that provides the infrastructure we need for the decades to come.

The 9.3 million acres that our state holds in trust are also critical. After a summer spent working with key legislators of both parties, we are close to an agreement on a referendum to reform state trust land, as well as a statutory package to implement that referendum. I ask that you refer state trust land reform to the ballot this year, and that you pass the implementing package this session. If you deal with transportation and state trust land reform, you will have created an important legacy for Arizona.

Energy is key to our state's ability to grow and prosper. As our demand for energy grows – and our dependence on foreign oil becomes ever more troublesome – it is time to take the next steps toward changing how we generate and conserve energy. This session, you will have before you a package of energy legislation to get us there.

Following the lead of the Arizona Corporation Commission, we should require that – by 2025 – all electric utilities provide 15 percent of their electricity from renewable sources. Likewise, at least ten percent of fuel sold in Arizona should be low in carbon emissions.

Next, let's replace the current crazy quilt of local energy conservation rules with real statewide minimum standards for new construction, then ensure that every new building in Arizona is built to meet them. Finally, let's address climate change and greenhouse gas emissions by creating new energy efficiency standards for appliances; new opportunities to generate and use renewable energy; and standards to reduce emissions of harmful pollutants such as diesel exhaust. Taken together, this work will allow us to move Arizona forward toward a vision of a stable climate and sustainability.

Population growth, combined with climate change and its resulting drought, will make water an ever-present factor in Arizona's future. Through our laws, ordinances and building codes, we must continue to emphasize conservation, as well as preservation of riparian habitat, as we develop new water infrastructure for our state.

From transportation to state trust land to energy to water, we have a statewide vision for our future. Our statewide growth policies will encourage planning that is comprehensive and includes all levels of government – town, city, county and tribal. We all have to be on the same page. We are many communities, but we are One Arizona, and we must work together so our story for the future reflects that.



Chapter Five in Arizona's story is health care.

We've come a long way in five years. Then, Arizona's health care workforce couldn't keep up with our growth; the cost of prescription drugs was outside the reach of many Arizonans, with little help available. And we were stuck in the age of paper, not maximizing technology to electronically connect patients and providers with medical records.

Now, we have a new medical campus in Phoenix; we have nearly doubled enrollment in programs for registered nurses; and the CoppeRx Card has saved Arizonans millions on prescription drugs. More children than ever get well-child check-ups, and more families can learn about health insurance for their children through KidsCare. And we have received more than 16 million dollars in federal grants because of our leading-edge work in electronic health care systems.

This is good work. Now, we need to do more, because, for too many Arizona families, the doors to health care remain shut. As I've traveled the state, I've heard the same stories again and again: someone loses a job, or they work for a small business that is not able to provide health care. Or, a child in the family has an ongoing health condition that prices insurance way beyond their reach.

It's time to face the facts: families need health care.

Children, in particular, need and deserve a healthy start. KidsCare is an effective program, and we know it works, so let's build on that success. Let's allow families – who are currently shut out of the health care system – to buy health insurance for their children at the parents' cost, with no subsidy from the state's general fund.

For parents fighting for health care for their children, this new program – call it “KidsShare” – would be a viable option. We would begin to open the doors to health care in a way that's fair and responsible.

Next we need to expand the amount of time a child can stay insured.

Children become young adults; and young adults are the fastest-growing group of uninsured in our state. They live lives that involve part-time and entry-level jobs that increasingly don't offer health benefits; they also, way too often, gamble that they will never get sick.

We can't afford that gamble. Small health problems, left unattended, can become big and very expensive conditions the state may have to pay for.

These young people should be able to maintain the health care they've grown up with. I have directed the Department of Administration to find ways for the State Health Insurance plan to allow all young adults – up to the age of 25 – to continue coverage on their parents' insurance, so long as this can be done in a way that is cost-neutral to taxpayers. I ask you to expand this concept to the private insurance market so that more of our young people are insured.



Those who can afford health insurance still need our help. Finding good health care is hard; understanding health care insurance plans can feel like a hopeless pursuit. I ask you to require that insurance companies supply the state with timely, accurate information about their plans, and the sticker prices for their coverage.

The state will then publicize this information in a clear, consumer-friendly way. It seems simple – because it is. And it is also necessary.

For our seniors, we should continue to build on last year's work, and reward the highest-quality nursing home care providers. The state will pay more money to those nursing homes who offer better quality care that leads to their residents having the best health outcomes. My budget will accomplish this, and as a result, we will prevent even more devastating conditions down the road.

Next, we will continue our work to grow Arizona's health care workforce to match our growing population. In my budget, I propose that we triple the state funding for our loan repayment program to recruit physicians, nurse practitioners and dentists to work in underserved areas, such as rural and tribal communities. Again, it will be a cost-neutral action.

Finally, let's continue the work we've begun for our veterans. They served for us; it's our turn to serve for them.

Arizona's more than 600,000 veterans deserve to receive the benefits they have earned. Veterans' Benefits Counselors – who work for the state – are experts in finding those benefits, and connecting them to the military men and women who need them. We will continue to aggressively expand the number of these counselors across all parts of the state. By the end of this year, there will be an Arizona veterans' benefits counselor within an hour's drive of virtually every veteran in our state.

Last year, I met with our state's leaders in health care, and there was remarkable consensus on the ideas that should move us forward: health care should be within the reach of our citizens; Arizona's health care system should be simple and smart; it should promote care that is efficient and effective; and base care decisions on prevention and staying well, rather than merely treating the sick. The proposals I've outlined today further these principles, and move Arizona forward toward an accessible, affordable, and high-quality health care system.

These are the five chapters we are weaving into the story of Arizona's future. It is a powerful narrative, one of progress, action and success. It is not one we can allow to be cut short because of a temporary economic condition. Yet, that's just what some are calling for: harsh cuts that are unwise and unnecessary.

Let me tell you a few things that this budget shortfall is not. It is not permanent. It is not a sign that Arizona's growth will stall, or that this wonderful place we call home will become less desirable. More important, it is not an excuse to stop working toward what we all believe in. Now, let's look at a few things this shortfall is:



It is an opportunity to make government even more efficient and effective. Over the past five years, my Efficiency Review team has identified more than \$1 billion that we have saved, through measures like improving procurement and reducing paperwork. We will continue this year to find innovative ways to make our tax dollars work their hardest.

I have also prepared a package of more than 50 boards, commissions and agencies that can be either merged – with their functions performed elsewhere – or eliminated. These are reforms that make sense in our changing times.

The shortfall also is an opportunity to do what business does: invest in infrastructure so we are fully prepared to capitalize on the economic good times, when they return. I have presented you with a plan for balancing this year's budget. I began the first leg of that plan last July, by instructing state agencies on where to cut their spending. I now ask you to implement the other two legs of the plan to balance our budget this year: pass bills allowing us to finance the construction of new schools, and to use part of the "rainy day" savings account that we've built up precisely for this purpose.

We must remember that Arizonans years from now won't ask how we balanced the budget. Instead, they'll ask how we improved education, ensured their safety, built a prosperous economy, and planned for explosive growth.

State government must live within its means – so the budget I will deliver to you for our next budget year, fiscal year 2009, will be balanced, and will not raise taxes. That's important work, but as I've said, the ins and outs of balancing a budget can't – and won't – be Arizona's story.

I believe, with every fiber of my being, that we cannot squeeze the areas most critical to our success. In this competitive and fast-moving world, we must continue to write our own story; otherwise, we give in and allow it to be written for us.

Because the story we're writing is not about mediocrity. The story of Arizona's future is about how great promise overcomes great challenge. It's about the hard-working people of this state who don't want much from government, just concrete action on issues that affect them, and policies that allow them to flourish with their own natural abilities. Our story is also about a government that lived up to its end of the bargain, and didn't give up when the going got a little tough.

The story of Arizona's future is about how we put our shoulders to the wheel together to achieve our dreams.

Next month, the Super Bowl will come to Glendale, and the eyes of the world will be on our state. What a great opportunity to show our accomplishments while we challenge ourselves for our future.



We all have great hopes for Arizona. Let us have the courage today to rededicate ourselves to those hopes. Even in the face of challenges, we must make our dreams of today the reality of tomorrow.

My friends, we are writing the story of Arizona's future. Let's make it a classic.